XI Commonwealth Games
EDMONTON 1978

# WSL

western supplies limited 14940 - 121A Avenue, Edmonton, Alberta

File

# ANNUAL REPORT
for the year ending January 31, 1978

# WSL WESTERN SUPPLIES LIMITED

14940 - 121A AVENUE, EDMONTON, ALBERTA T5V 1A3

**DIRECTORS**

J. Alexander
M. L. Cosgrove
L. J. Giroday
T. A. Graham
W. A. Graham
F. R. Godfrey
P. L. P. Macdonnell, Q.C.
Thomas A. Graham
H. W. Skaret
W. R. Taprell

**OFFICERS**

T. A. Graham, Chairman of the Board
W. A. Graham, President
J. Alexander, Vice-President
H. W. Skaret, Vice-President
F. R. Godfrey, Exec. Vice Pres. & Treasurer
Thomas A. Graham, Secretary

**TRANSFER AGENT AND REGISTRAR**

National Trust Company, Limited
Edmonton, Toronto, Vancouver

**AUDITORS**

Peat, Marwick, Mitchell & Co.
25th Floor, 10020 - 100 Street
Edmonton, Alberta

**BANKERS**

Canadian Imperial Bank of Commerce

**ANNUAL MEETING**

The annual meeting of shareholders will be held at the Edmonton Inn, Friday, June 9, 1978, at 11:30 a.m.

VICTORIA • ABBOTSFORD • CHILLIWACK • NEW WESTMINSTER • RICHMOND • VANCOUVER
KAMLOOPS • VERNON • KELOWNA • PENTICTON • CRANBROOK • PRINCE GEORGE • CAMPBELL RIVER
COQUITLAM • DAWSON CREEK • GRANDE PRAIRIE • FT. McMURRAY • EDMONTON • CAMROSE • RED DEER
LETHBRIDGE • CALGARY • SASKATOON • REGINA • WINNIPEG • THUNDER BAY • HAMILTON
BRANTFORD • LONDON • BELLEVILLE • WOODSTOCK • WELLAND • TORONTO • ST. THOMAS
KITCHENER • SARNIA • RICHMOND HILL • COLLINGWOOD • LINDSAY • ORILLA • OSHAWA • KINGSTON
U.S.A. - PORTLAND • MEDFORD • EUGENE • BEND • ALBANY • SEATTLE • LONGVIEW

# ANNUAL REPORT TO THE SHAREHOLDERS

The difficult business conditions of a generally troubled economy in Canada resulted in a disappointing year for the Company and its subsidiaries. Although business in the Prairie Region remained relatively buoyant, slow economic growth and high levels of unemployment in Ontario and British Columbia, two of the Company's principal marketing areas, and higher than expected expenses associated with the Company's acquisition of Peerless Pacific Company in Portland, Oregon had a substantially adverse affect on the Company's earnings.

## OPERATING RESULTS

Sales during the year increased approximately 16% to $83,132,404, but much of this increase was attributable to the acquisition of Peerless Pacific Company. Consolidated net earnings of $956,694 were down 42% from the $1,660,444 earned in the previous year. Earnings per common share were $1.70 compared with $2.95. Dividends paid during the year amounted to 90¢ per share and continued to be tax free in the hands of the shareholders.

## BRITISH COLUMBIA

During the year the new Distribution Centre at Langley, British Columbia became fully operational and with adequate trucking service now being provided to the branches in that province, inventory levels can be reduced and service to customers improved. Expenses were still too high and the difficult economic conditions prevailing in British Columbia made it a difficult year for the Company.

## EASTERN REGION

In the Eastern Region which comprises 18 branches in Ontario an extensive reorganization consolidating the operations of the Company's wholly-owned subsidiary Quality Utilities Limited with those of the Company is expected to provide a sounder base for future growth. A new branch was opened in Kingston during the year.

## PRAIRIE REGION

In the Prairie Region, and particularly in Alberta, the performance of the Company remained satisfactory. During the year the head office was relocated in a new business park developed as a joint venture by the Company and Princeton Developments Ltd. of Edmonton. The Company leases one of three new buildings in the park, the other two having been fully leased to other tenants. Since the end of the year the Company and Princeton Developments Ltd. have entered into a further joint venture and purchased approximately 16 acres in the Strathcona Industrial Park in South Edmonton. New warehouse facilities to be constructed for the Company and its subsidiary, Westlund Industrial Supply Ltd., will provide them both with much needed larger premises and a new pipe yard. This development will occupy approximately 6½ acres and the balance of the land will either be developed or sold. The new facilities will be ready for occupancy in the autumn and will replace existing facilities of both the Company and Westlund in South Edmonton.

## PEERLESS PACIFIC COMPANY

In September, 1977 the Company completed the purchase of all the shares of Peerless Pacific Company which is engaged in the business of selling plumbing and industrial supplies in the States of Oregon and Washington, U.S.A. Peerless Pacific Company which has been in business for more than forty years has branches in Portland, Eugene, Medford, Albany and Bend in Oregon and in Seattle and Longview in Washington. This expansion of the Company into the Pacific Northwest was a natural extension of the market served by the Company in the Provinces of Alberta and British Columbia. Although expenses associated with this acquisition were higher than anticipated, sales have been encouraging as the United States economy slowly picks up and management anticipates that future earnings will provide an adequate return on this investment.

## OUTLOOK FOR 1978

Although some improvement in overall economic activity in Canada is expected to take place during 1978, it is difficult to foresee much improvement in the Company's earnings during the current fiscal year. However, the phasing out of anti-inflation legislation and the prospect of somewhat less political uncertainty should enable the Canadian economy to regain some impetus and encourage business activity. Although the Company expects to face another difficult year in British Columbia and Ontario, the prospects for the Prairie Region appear good and overall we anticipate a more satisfactory year.

## EMPLOYEES

The year under review was an unusually demanding year for the employees of the Company and we are grateful for their constructive efforts and achievements during a challenging period.

On behalf of the Board of Directors

Executive Vice President and Treasurer

President

## CONSOLIDATED STATEMENT OF EARNINGS

Year ended January 31, 1978
(with comparative figures for 1977)

| | 1978 | 1977 |
|---|---|---|
| Sales | $ 83,132,404 | 71,593,598 |
| Operating profit before undernoted items | 3,309,982 | 4,676,767 |
| Equity earnings of joint venture | 17,379 | — |
| Profit on sale of land and buildings | 179,074 | — |
| | 3,506,435 | 4,676,767 |
| Deduct: | | |
| Depreciation and amortization | 405,252 | 241,628 |
| Amortization of goodwill | 85,552 | 28,371 |
| Interest on short-term debt | 855,254 | 823,026 |
| Interest on long-term debt | 402,674 | 202,810 |
| Earnings before income taxes | 1,757,703 | 3,380,932 |
| Income taxes: | | |
| Current (note 5) | 854,709 | 1,696,792 |
| Deferred (reduction) | (53,700) | 23,700 |
| | 801,009 | 1,720,492 |
| Net earnings | $ 956,694 | 1,660,440 |
| Earnings per common share | $ 1.70 | 2.95 |

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended January 31, 1978
(with comparative figures for 1977)

| | 1978 | 1977 |
|---|---|---|
| Retained earnings, beginning of year | $ 11,651,420 | 10,606,328 |
| Net earnings | 956,694 | 1,660,440 |
| | 12,608,114 | 12,266,768 |
| Deduct: | | |
| Dividends on common shares | 507,582 | 523,791 |
| 15% tax paid on undistributed income | 44,565 | 91,557 |
| | 552,147 | 615,348 |
| Retained earnings, end of year | $ 12,055,967 | 11,651,420 |

See accompanying notes to consolidated financial statements.

**WESTERN SU**

*Consolidated Balance*

(with comparati

## ASSETS

| | 1978 | 1977 |
|---|---|---|
| CURRENT ASSETS: | | |
| Accounts receivable | $ 14,024,072 | 10,387,013 |
| Inventories | 21,867,725 | 13,772,752 |
| Prepaid expenses | 109,980 | 67,421 |
| Current portion of long-term receivables | 97,795 | 20,000 |
| Total current assets | 36,099,572 | 24,247,186 |
| CASH SURRENDER VALUE OF LIFE INSURANCE | 52,624 | 49,839 |
| INVESTMENT IN JOINT VENTURE | 136,179 | 118,800 |
| LONG-TERM RECEIVABLES (note 2) | 346,666 | 38,957 |
| FIXED ASSETS (note 3) | 4,102,963 | 3,213,308 |
| GOODWILL | 962,270 | 395,457 |
| | $ 41,700,274 | 28,063,547 |

**IES LIMITED**

*eet, January 31, 1978*

gures for 1977)

**LIABILITIES AND SHAREHOLDERS' EQUITY**

| | 1978 | 1977 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Bank indebtedness (note 4) | $ 12,444,389 | 6,485,698 |
| Accounts payable and accrued liabilities | 9,373,073 | 6,051,999 |
| Dividends payable | 253,791 | 253,791 |
| Current portion of long-term debt | 795,694 | 268,150 |
| Income taxes payable | 636,653 | 768,781 |
| Total current liabilities | 23,503,600 | 13,828,419 |
| LONG-TERM DEBT (note 6) | 5,815,045 | 2,204,346 |
| DEFERRED INCOME TAXES | — | 53,700 |
| SHAREHOLDERS' EQUITY: | | |
| Share capital (note 7) | 325,662 | 325,662 |
| Retained earnings | 12,055,967 | 11,651,420 |
| Total shareholders' equity | 12,381,629 | 11,977,082 |
| COMMITMENTS AND CONTINGENT LIABILITIES (note 11) | | |
| | $ 41,700,274 | 28,063,547 |

On behalf of the Board:

Director

Director

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended January 31, 1978
(with comparative figures for 1977)

| | 1978 | 1977 |
|---|---|---|
| Funds provided: | | |
| Funds from operations | $ 1,194,560 | 1,951,603 |
| Proceeds on disposal of land and buildings | 320,493 | 13,783 |
| Proceeds from long-term financing | 447,400 | 1,100,600 |
| Reduction in agreement for sale receivable | — | 120,491 |
| Other | 20,208 | 27,901 |
| From acquisitions (note 8): | | |
| Consideration | 4,829,125 | — |
| Less consideration paid in cash | 965,734 | — |
| Long-term debt incurred to finance acquisitions | 3,863,391 | — |
| Long-term debt assumed with acquisition | 101,182 | — |
| Less non-current assets purchased | (1,453,299) | — |
| Working capital provided from acquisitions | 2,511,274 | — |
| Total funds provided | 4,493,935 | 3,214,378 |
| Funds used: | | |
| Fixed asset purchases | 963,309 | 1,805,928 |
| Reduction in long-term debt | 801,274 | 270,433 |
| Dividends on common shares | 507,582 | 523,791 |
| Tax paid on undistributed income | 44,565 | 91,557 |
| Increase in long-term receivables | — | 38,957 |
| Total funds used | 2,316,730 | 2,730,666 |
| Increase in working capital | 2,177,205 | 483,712 |
| Working capital, beginning of year | 10,418,767 | 9,935,055 |
| Working capital, end of year | $ 12,595,972 | 10,418,767 |

See accompanying notes to consolidated financial statements.

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Western Supplies Limited as at January 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the consolidated financial position of the Company as at January 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Edmonton, Canada
March 31, 1978

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 1978

1. Significant accounting policies:

Principles of consolidation:
The accompanying financial statements consolidate the accounts of the Company and its subsidiaries, all of which are wholly-owned. All material inter-company balances and transactions have been eliminated.

Principles of joint venture accounting:
The investment in joint venture is accounted for by the equity method. The Company has a 50% interest in an unincorporated joint venture, the object of which is to construct and rent office buildings in the City of Edmonton. A portion of these facilities are leased by the Company.

Foreign currency translation:
The accounts of the U.S. subsidiary have been translated to Canadian dollars as follows:

- current assets and current liabilities, long-term receivables and long-term debt at rates prevailing at the year end.
- non-current assets, other than long-term receivables, and provision for depreciation and amortization at rates prevailing at the date of acquisition.
- operating income and expense, other than depreciation and amortization at average monthly rates.

Translation gains and losses are reflected in the statement of earnings. The loss was not material in the fiscal year end 1978.

Inventories:
Inventories are valued at the lower of cost (determined on a first-in, first-out basis) and estimated net realizable value.

Fixed assets:
Fixed assets are recorded at cost less accumulated depreciation and amortization.
The parent and its Canadian subsidiaries use the declining balance method to provide depreciation over the estimated lives of their assets.

Annual depreciation rates are:

| | |
|---|---|
| Buildings | 5 - 10% |
| Furniture, fixtures and other equipment | 20% |
| Automotive equipment | 30% |

Leasehold improvements are being amortized over the period of their respective leases.

The U.S. subsidiary uses the straight-line method to provide depreciation over the estimated useful lives of their assets.

Estimated useful lives are:

| | |
|---|---|
| Furniture and fixtures | 7 years |
| Automotive equipment | 1 - 7 years |
| Warehouse equipment | 2 - 7 years |

Goodwill:
Goodwill, arising on acquisitions, is recorded at cost and is being amortized over periods varying from 5 to 20 years.

Deferred income taxes:
Deferred income taxes are recorded on timing differences which arise from claiming expenses for tax purposes at a different amount than those claimed for statement purposes, principally depreciation. The current year's reduction is a result of recognizing the income tax benefit of a subsidiary's losses which will be available to the parent company.

2. Long-term receivables:

| | 1978 | 1977 |
|---|---|---|
| Promissory note | $ 38,957 | 58,957 |
| 8% note receivable | 405,504 | — |
| Total long-term receivables | 444,461 | 58,957 |
| Less current portion | 97,795 | 20,000 |
| | $ 346,666 | 38,957 |

3. Fixed assets:

| | 1978 | 1977 |
|---|---|---|
| Buildings | $ 2,855,395 | 1,763,879 |
| Furniture and fixtures | 1,248,436 | 790,724 |
| Automotive equipment | 821,512 | 513,126 |
| Leasehold improvements | 597,394 | 239,895 |
| | 5,522,737 | 3,307,624 |
| Less accumulated depreciation and amortization | 1,993,404 | 1,640,815 |
| | 3,529,333 | 1,666,809 |
| Land | 573,630 | 601,543 |
| Building-in-progress | — | 944,956 |
| | $ 4,102,963 | 3,213,308 |

4. Bank indebtedness:
The Company's indebtedness is secured by a general assignment of book debts, a floating debenture on all assets and undertakings, and fire insurance on stock and fixtures.

5. Income taxes:
The 3% inventory allowance has been taken into account in determining current income taxes.

6. Long-term debt:

| | 1978 | 1977 |
|---|---|---|
| a) Note payable in U.S. dollars, secured by 100 shares of the U.S. subsidiary, due in annual principal installments of $551,913 (Cdn.) plus interest at 8%, through to maturity on June 24, 1984 | $ 3,863,397 | — |
| b) Bank term loan, secured as set forth in note 4, due in monthly installments through to May 1985, with interest at 1¾% over Canadian chartered bank prime rate | 2,482,900 | 2,235,900 |
| c) Mortgages and other notes payable | 264,442 | 236,596 |
| Total long-term debt | 6,610,739 | 2,472,496 |
| Less current portion | 795,694 | 268,150 |
| | $ 5,815,045 | 2,204,346 |

Annual maturities on long-term debt over the next five years are:

| | |
|---|---|
| 1979 - $795,694 | 1982 - $758,865 |
| 1980 - $797,467 | 1983 - $758,865 |
| 1981 - $770,873 | |

Annual maturities of long-term debt over the next five years, which are payable in U.S. dollars, have been translated to Canadian dollars at rates prevailing at the year end.

7. Share capital:

| | 1978 | 1977 |
|---|---|---|
| Authorized 1,000,000 common shares without nominal or par value | | |
| Issued and outstanding 563,980 | $ 325,662 | 325,662 |

8. Acquisition:

On June 17, 1977 the Company acquired the inventory and business of a Canadian operation, and on September 7, 1977 the assets, liabilities and business of a U.S. operation. Both acquisitions were accounted for as purchases.

The details of which are as follows:

| | |
|---|---|
| Assets acquired | $ 7,116,082 |
| Liabilities assumed | 2,939,321 |
| | 4,176,761 |
| Goodwill | 652,364 |
| Consideration | $ 4,829,125 |

Of the total consideration, $965,734 was paid in cash and the balance is due in equal annual installments of $551,913 through to 1984.

9. Pension costs:

There was no unfunded liability for past service cost at January 31, 1978.

10. Remuneration of directors and officers:

During the year ended January 31, 1978, the Company paid aggregate remuneration of $7,300 to 10 directors as directors ($6,300 to 10 directors in 1977) and $443,675 to 8 officers as officers ($615,122 to 10 officers in 1977). Six officers were also directors in 1978 and seven in 1977.

11. Commitments and contingent liabilities:

a) The Company has entered into lease agreements for warehouse premises covering terms varying from one to twenty years. The rental commitments for the next five years aggregate a total of approximately $2,700,000, compared to approximately $2,300,000 for 1977.

b) The Company's lease commitments for equipment rental for the next five years are approximately $300,000, compared to approximately $425,000 for 1977.

c) The Company is jointly and severally liable as a guarantor for joint ventures' loans totalling $4,160,000 at March 31, 1978.

12. Anti-inflation Act:

The Company and its Canadian subsidiaries are subject to the Federal Anti-inflation Act and Regulations. The applicable controls will be phased out by the end of 1978.

13. Comparative figures:

Certain of the 1977 figures have been reclassified to conform with the financial statement presentation adopted for 1978.

## FIVE YEAR SUMMARY

(In thousands of dollars except net earnings per share)

| INCOME STATISTICS | 1978 | 1977 | 1976 | 1975 | 1974 |
|---|---|---|---|---|---|
| Sales | $ 83,132 | 71,594 | 61,670 | 60,752 | 44,713 |
| Earnings before income taxes | 1,758 | 3,380 | 3,972 | 5,828 | 3,587 |
| Income taxes | 801 | 1,720 | 1,985 | 3,088 | 1,838 |
| Net earnings (see note) | 957 | 1,660 | 2,092 (1) | 2,740 | 1,749 |
| Per share | $ 1.70 | 2.95 | 3.71 | 4.86 | 3.10 |
| Dividends | 508 | 524 | 473 | 371 | 270 |

| BALANCE SHEET STATISTICS | 1978 | 1977 | 1976 | 1975 | 1974 |
|---|---|---|---|---|---|
| Current assets | $ 36,100 | 24,286 | 23,271 | 18,399 | 16,619 |
| Current liabilities | 23,504 | 13,829 | 13,336 | 10,338 | 10,524 |
| Working capital | 12,596 | 10.457 | 9,935 | 8,061 | 6,095 |
| Ratio of current assets to current liabilities | 1.5 | 1.8 | 1.7 | 1.8 | 1.6 |
| Fixed assets | 4,103 | 3,350 | 1,803 | 1,843 | 1,157 |
| Long term debt | 5,815 | 2,204 | 1,374 | 1,126 | 744 |
| Total shareholders' equity | 12,382 | 11,977 | 10,932 | 9,397 | 7,114 |

(1) NET EARNINGS FOR 1976 INCLUDE EXTRAORDINARY EARNINGS OF $105,000